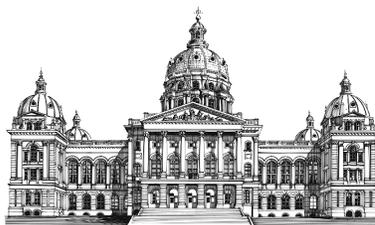

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State Capitol
Des Moines, IA 50319
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Community Economic Betterment Account (CEBA) Update

ISSUE

Review of Community Economic Betterment Account (CEBA) Program that provides loans and forgivable loans to businesses to expand job opportunities.

AFFECTED AGENCIES

Department of Economic Development

CODE AUTHORITY

Section 15.315, Code of Iowa

BACKGROUND

The Community Economic Betterment Account (CEBA) Program was established in FY 1986 and awarded the first loan on May 15, 1986. The Program is intended to increase employment opportunities for Iowans by increasing the level of economic activity within the State. The Program is structured to provide financial assistance to businesses and industries that require such assistance in order to create new employment opportunities, or retain jobs that would be lost without such assistance. The Program provides financial assistance, primarily loans and forgivable loans, to cities, counties, and community colleges to assist in the expansion of specific businesses, for the start-up of new businesses, and to recruit businesses operating outside the State of Iowa. In return, the businesses agree to create or retain a specific number of jobs. Recently, a venture capital component was added to the Program, but this feature is not examined in this **Review**.

The CEBA funding is intended to leverage other financial support, such as bank financing and private investment. Funding from CEBA is typically used for:

- Building construction or reconstruction
- Land or building acquisition
- Equipment purchases
- Operating and maintenance expenses

- Site development, including clearance, demolition and building removal
- Working capital

Over the years, CEBA has provided financial assistance to manufacturing companies, food processors, service businesses, telemarketers, computer and other high-tech businesses, and a variety of other companies. Some of the businesses receiving funding in FY 2000 include:

- Generac, a Wisconsin-based company that manufactures electrical generators.
- Housby Mixer Group, a start-up company making a new design truck-mounted cement mixer.
- DNA Technologies, a supplier of synthetic DNA for life sciences research and development of biotechnology.
- Sioux City Brick and Tile Company for renovation of its Adel plant to utilize computer and robotic technology.
- Professional Computer Systems for the development of utility billing software.

The Program made 718 awards totaling \$120.2 million through FY 2001. In addition, the CEBA Program leveraged \$3.5 billion in other forms of financing for these projects. In 216 of the awards, multiple types of awards were made. For example, in some cases both a loan and a forgivable loan were awarded. **Tables 1 and 2** show the amounts awarded and the number of each type of award by the Program.

Table 1

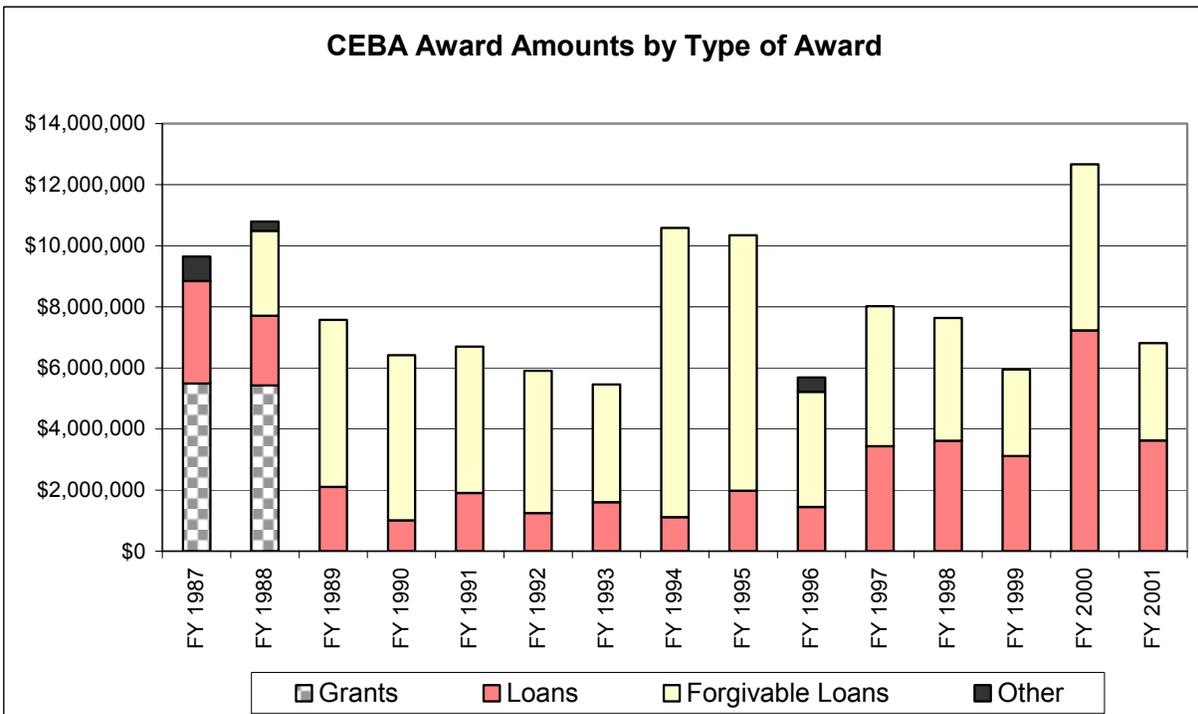
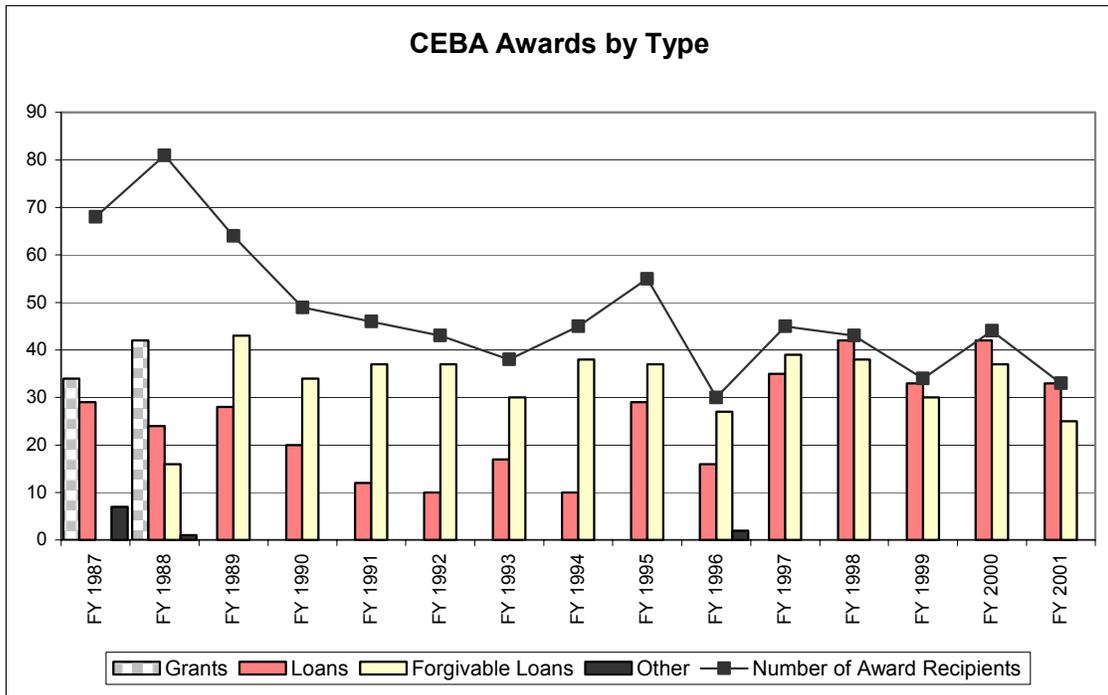
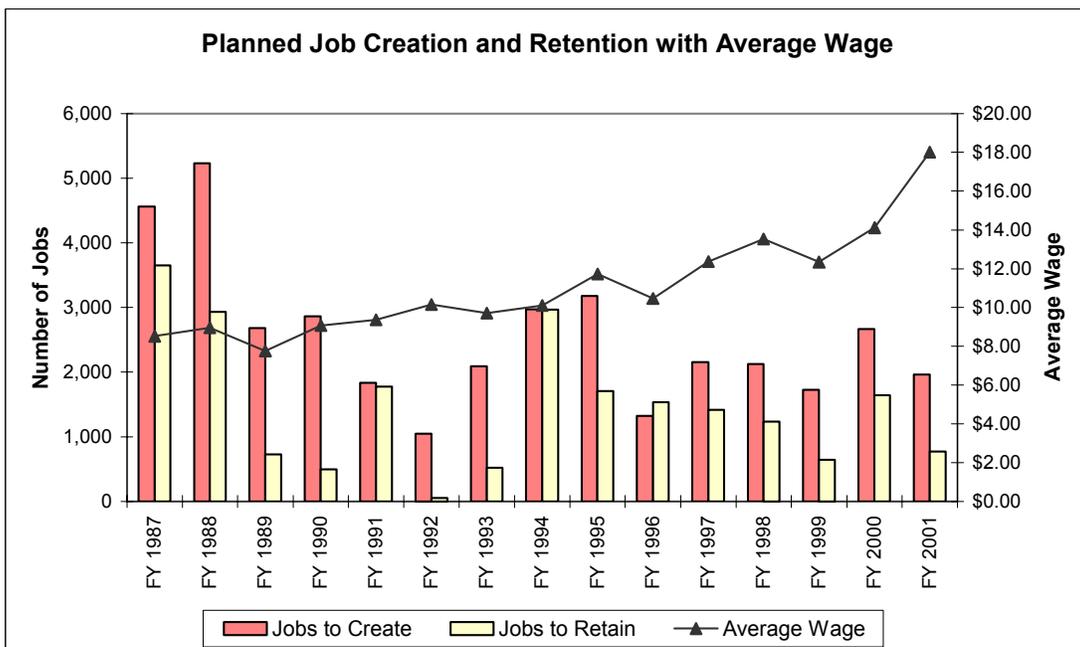


Table 2



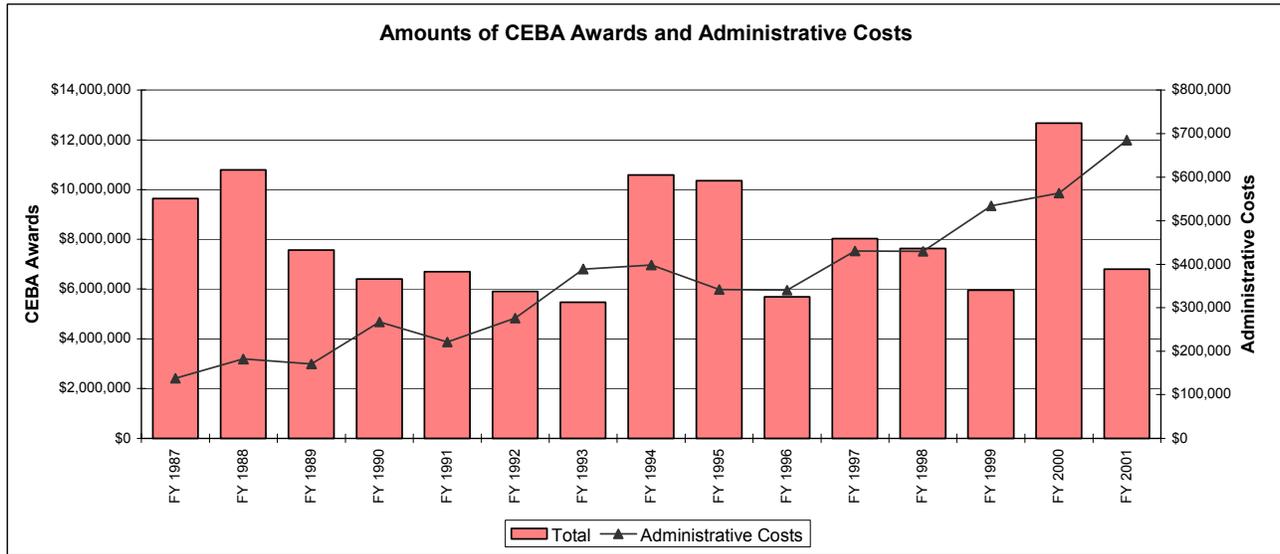
All totaled, CEBA award recipients planned to create approximately 22,000 jobs and retain 38,000, for a total of 61,000 jobs. The August 2001 report by the CEBA Program, examining only completed projects, shows a 94.0% attainment rate for pledged jobs; that is, 43,000 created and retained jobs are associated with the CEBA Program. The average wage for the jobs associated with CEBA projects increased from \$8.52 in FY 1987 to \$18.01 in FY 2001. **Table 3** shows the number of jobs to be created and retained, plus the average wage.

Table 3



Administrative costs for the Program have fluctuated over time, ranging from \$138,000 in its first year to \$685,000 in FY 2001. Over the life of the Program, the ratio of administrative costs to awards averaged \$4.46 per \$1,000 awarded. The highest ratio was \$10.16 per \$1,000 awarded in FY 2001. **Table 4** shows the administrative costs and the total awards for the CEBA Program.

Table 4



CURRENT SITUATION

This Section describes the CEBA projects that reached completion in 1992 and 1997 and examines the employment levels of these businesses three years after completion of the Program. A total of 79 businesses completed their CEBA projects during these two years. Iowa Workforce Development was able to match employment data to 59 of these companies for this analysis. These 59 businesses will be compared based on project completion status.

Most of the examined businesses were expanding their existing operations. (**Table 5**) The remainder was divided almost equally between start-up businesses and businesses recruited from out-of-state.

Table 5
Type of Business Growth
(Projects Completed in 1992 and 1997)

Project Status	Expansion	Recruitment	Start Up	Total
Complete Job Attainment	20	3	4	27
Partial Job Attainment	15	2	2	19
Recaptured	3	2	0	5
Approved Write Off	4	0	2	6
Other	2	0	0	2
Total	44	7	8	59
Percentage	74.58%	11.86%	13.56%	100.00%

The CEBA participants were primarily small businesses, with over half having 25 or fewer employees and only 10 businesses with more than 100 employees. **Table 6** provides a breakdown of the businesses by number of employees.

All of the examined businesses received either loans or forgivable loans totaling \$6.8 million. Most

Table 6
Size of Participating Businesses
(Projects Completed in 1992 and 1997)

Project Status	25 or Fewer Employees	26 to 100 Employees	Over 100 employees	Total
Complete Job Attainment	11	8	8	27
Partial Job Attainment	14	5	0	19
Recaptured	2	2	1	5
Approved Write Off	5	0	1	6
Other	1	1	0	2
Total	33	16	10	59
Percentage	55.93%	27.12%	16.95%	100.00%

of the businesses completed the project and attained or partially attained the agreed to number of jobs. The following table provides a breakdown of the loans and forgivable loans by project status.

Table 7
Community Economic Betterment Account Loans
for Examined Businesses
(Projects Completed in 1992 and 1997)

Project Status	Number of Awards	No. of Loans	Total Loans	Average Loan
Complete Job Attainment	27	11	\$ 877,810	\$ 79,801
Partial Job Attainment	19	7	286,500	40,929
Recaptured	5	3	175,000	58,333
Approved Write Off	6	4	210,000	58,333
Other	2	1	60,000	60,000
Total	59	26	\$ 1,609,310	\$ 61,897
Percentage		38.24%	23.75%	

	No. of Forgivable Loans	Total Forgivable Loans	Average Forgivable Loans	Total CEBA Amount
Complete Job Attainment	20	\$ 3,261,310	\$ 163,066	\$ 4,139,120
Partial Job Attainment	15	915,300	61,020	1,201,800
Recaptured	4	805,000	201,250	980,000
Approved Write Off	3	185,000	61,667	395,000
Other	0	0	0	60,000
Total	42	\$ 5,166,610	\$ 123,015	\$ 6,775,920
Percentage	61.76%	76.25%		

Note: Some awards contained both loans and forgivable loans

The Department of Economic Development monitors job creation and retention by requiring participating CEBA businesses to file annual progress reports, a copy of the Iowa “Employers Contribution and Payroll Report,” and a payroll register for the last week of the most current quarter. Updated copies of this information are required upon closeout of the project.

Table 8 outlines the planned and achieved jobs for the participating businesses. Overall, the businesses ended the projects with 3,131 realized jobs or 96.5% of the jobs they planned to add or retain.

Table 8
Job Growth and Retention
(Projects Completed in 1992 and 1997)

Project Status	Planned			Planned		
	Job Creation	Actual Job Creation	Difference	Job Retention	Actual Job Retention	Difference
Complete Job Attainment	773	1,175	402	1,321	1,324	3
Partial Job Attainment	452	203	-249	78	76	-2
Recaptured	320	315	-5	116	4	-112
Approved Write Off	162	17	-145	2	0	-2
Other	20	17	-3	0	0	0
Total	1,727	1,727	0	1,517	1,404	-113

100.00%

92.55%

Project Status	Total Planned Jobs	Total Realized Jobs	Total Difference
Complete Job Attainment	2,094	2,499	405
Partial Job Attainment	530	279	-251
Recaptured	436	319	-117
Approved Write Off	164	17	-147
Other	20	17	-3
Total	3,244	3,131	-113

96.52%

The CEBA Program invested \$5.8 million in loans and forgivable loans (net of recaptured awards) for the above realized jobs. This represents an investment of \$1,851 per job. Since 23.8% of the awards were loans, about a quarter of the award costs will be recovered, excluding write-offs, which will reduce the investment per job.

Table 9 below gives the average salary ranges for the jobs affected by the CEBA project. Almost two thirds of the jobs were in the \$11.00 plus average hourly wage range. The businesses that only partially attained the planned job levels tended to be at the lower wage levels. The average wage for all jobs was \$11.70, which is slightly above the estimated statewide average of \$11.27 for 1992 and 1997 combined.

The Workforce Development data shows that by three years after the CEBA project, 35 (59.3%) of the businesses maintained or increased their number of employees, while 24 (40.7%) decreased their number of employees. In terms of the actual number of jobs, employment levels for these 59 companies decreased by 958 (10.0%) employees during the three years following the CEBA Program. Almost three-fourths of the decline (686 employees) is attributed to businesses that failed to meet their CEBA obligations and had their awards recaptured or written-off. The businesses that completely attained their CEBA project employment goals experienced a decrease of 3.8%, and those who partially attained their employment goals experienced an increase of 0.9%. **Table 10** details the change in employment following the CEBA program.

Table 10
Employment Change After Completing the CEBA Program
(Projects Completed in 1992 and 1997)

Project Status	No. Employees After Close	No. Employees Three Years After	Change Over Three Years	No. of Businesses With Same or Increased Emp.	No. of Businesses With Decreased Emp.
Complete Job Attainment	7,791	7,499	-292	16	11
Partial Job Attainment	427	431	4	11	8
Recaptured	1,023	513	-510	4	1
Approved Write Off	235	59	-176	3	3
Other	80	96	16	1	1
Total	9,556	8,598	-958	35	24

The Workforce Development information indicated that six (10.2%) of the examined businesses filed bankruptcy. Four of these had loans written off; one was recaptured; and one partially attained its job pledge. Two of these businesses went bankrupt while still participating in the CEBA Program; two went bankrupt within three years after completing the Program; and two went bankrupt more than three years after completion of the Program. Information from the U.S. Small Business Administration for 1997 and 1998 shows Iowa businesses with less than 500 employees closed at a rate of 8.9%. The failure rate for this sample of CEBA participants is approximately what would be expected.

CONCLUSION

The following observations can be made from the historical and sample information.

- The CEBA Program provides assistance through loans and forgivable loans primarily to small companies of less than 100 employees.
- During the 1990's, the Program typically made between 30 and 50 awards annually.
- The majority of the projects were for expansion of existing businesses.
- The Program has monitoring procedures in place to confirm job creation, and the Department of Economic Development reports a 94.0% job attainment rate for businesses completing the Program.

- Companies participating in the CEBA Program have a failure rate in the same general range as the total for all Iowa small business.
- While most CEBA participants maintain or increase their number of employees, a sizable minority of the businesses reduces their number of employees after completing the CEBA program, including those who successfully complete the Program.
- The average salary range for CEBA projects approximates the statewide average wage.

SOURCES:

U.S. Bureau of Labor Statistics (<ftp://146.142.4.23/pub/suppl/ECI.ECHISTORY.TXT>)
Department of Economic Development
Iowa Workforce Development
U.S. Small Business Administration (http://www.sba.gov/advo/stats/dyn_st98.pdf)

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Community Economic Betterment Account (CEBA) Update
<http://staffweb.legis.state.ia.us/lfb/IRVIEW/irview.htm>
LFB: IRMDF000.DOC/12/06/01/8:30 am/all